

**NEW JERSEY DIVISION OF TAXATION
TECHNICAL BULLETIN**

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OUTSIDE DIVISION X

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TAX: GROSS INCOME TAX

**TOPIC: CHANGE TO TAX RATE AND MINIMUM INCOME
THRESHOLD**

Recent tax legislation made significant changes in the New Jersey Gross Income Tax, effective January 1, 1994:

- Income tax rates are reduced by 5% for all taxpayers, and
- Minimum income amount is increased, eliminating tax for those with incomes of \$7,500 or less (\$3,750 for married persons filing separately).

INCOME TAX RATES REDUCED

P.L. 1994, c.2, approved March 7, 1994, reduces the New Jersey Gross Income Tax rates by 5% for all taxpayers for tax years 1994 and thereafter. The reduction is retroactive to January 1, 1994.

The new rates are as follows:

Filing Status	Taxable Income	Tax Rate
<i>Married, Filing Joint Return</i>	0 – \$20,000	1.9%
	\$20,001 – \$50,000	\$380 plus 2.375% of the excess over \$20,000
<i>Head of Household</i>	\$50,001 – \$70,000	\$1,092.50 plus 3.325% of the excess over \$50,000
	\$70,001 – \$80,000	\$1,757.50 plus 4.750% of the excess over \$70,000
<i>Qualifying Widow(er)</i>	\$80,001 – \$150,000	\$2,232.50 plus 6.175% of the excess over \$80,000
	Over \$150,000	\$6,555.00 plus 6.650% of the excess over \$150,000
<i>or</i>		
Filing Status	Taxable Income	Tax Rate
<i>Single</i>	0 – \$20,000	1.9%
	\$20,001 – \$35,000	\$380 plus 2.375% of the excess over \$20,000
<i>Married, Filing Separate Return</i>	\$35,001 – \$40,000	\$736.25 plus 4.750% of the excess over \$35,000
	\$40,001 – \$75,000	\$973.75 plus 6.175% of the excess over \$40,000
<i>and</i> <i>Estates and Trusts</i>	Over \$75,000	\$3,135.00 plus 6.650% of the excess over \$75,000

The following examples illustrate how the tax rates have changed:

	Single Taxpayer Taxable Income—\$18,000		Married Couple Filing Jointly Taxable Income—\$48,500	
	<u>1993</u>	<u>1994</u>	<u>1993</u>	<u>1994</u>
<i>Rate:</i>	2%	1.9%	\$400 plus 2.5% of the excess over \$20,000	\$380 plus 2.375% of the excess over \$20,000
<i>Tax:</i>	\$360	\$342	\$1,112.50	\$1,056.88

New Withholding Rates

Because of the reduction in tax rates, new withholding rates are required. Revised tables for the percentage method of withholding have been mailed to employers. The new withholding rates take effect May 1, 1994. Copies of the notice to employers and the revised withholding tables are attached to this bulletin.

Estimated Tax Payments

Any individual (resident or nonresident) who expects their New Jersey income tax liability to be more than \$100, after subtracting withholdings and credits, must make New Jersey estimated tax payments using Form NJ-1040-ES. Taxpayers should take the new income tax rates into account when calculating the amount of their estimated tax payments for 1994. Estates and trusts are not required to make New Jersey estimated tax payments.

MINIMUM INCOME THRESHOLD RAISED

P.L. 1994, c.8, approved March 16, 1994, increases the minimum income required to be subject to New Jersey Gross Income Tax. Effective January 1, 1994, the threshold was raised from \$3,000 to \$7,500 for individuals filing as single, head of household, qualifying widow(er) or married, filing joint return, and estates and trusts. For married persons filing separately, the threshold was raised from \$1,500 to \$3,750.

Beginning with tax year 1994, a single individual, married couple, or estate or trust with gross income for the year of \$7,500 or less (\$3,750 for married persons filing separately) has no tax liability to New Jersey. This means that many low income persons, senior citizens, students and others who had to file New Jersey income tax returns in the past will no longer be required to file. However, taxpayers whose income is below the minimum still have to file a return to claim a Homestead Property Tax Rebate or to get a refund if they had tax withheld from wages or made estimated tax payments.

Example: Henry and Ellen Miller of Cherry Hill, NJ are both 66 years of age and file a joint return. They expect their combined income for 1994 to consist of \$15,000 taxable pension income and \$2,300 in taxable interest and dividends, in addition to their Social Security benefits. After subtracting the applicable Pension Exclusion (\$10,000), their New Jersey Gross Income for the year is \$7,300. The Millers do not have to file a New Jersey income tax return for 1994 (unless they wish to claim a Homestead Property Tax Rebate), because their gross income (\$7,300) is below the minimum income threshold (\$7,500 for married couples filing jointly).

Example: Andrew McCann is a 16 year old high school student who expects to earn \$6,750 in 1994 from his part-time job as a musician. He is single and lives with his family in New Jersey. Andrew does not have to file a New Jersey income tax return for 1994 because his gross income is less than the \$7,500 minimum income threshold for a single person. Because he has no New Jersey tax liability, Andrew is entitled to a full refund of any tax that was withheld from his wages, but he must file a return to claim it. **Note:** Andrew can now use an Employee's Withholding Exemption Form (Form

NJ-W4-E) to stop his employer from withholding New Jersey income tax. See *Exemption from Withholding*, below.

Part-year Residents

Part-year New Jersey residents are subject to tax if their income for the *entire year* exceeds \$7,500 (\$3,750 for married persons filing separately), even if the income reported for the period of New Jersey residence was \$7,500 or less (\$3,750 for married persons filing separately).

A New Jersey income tax return must be filed by a part-year resident who receives any income (whether from New Jersey sources or not) during the part of the year spent as a resident of this State. However, no New Jersey income tax is due if the income a part-year resident received during the *entire year* was \$7,500 or less (\$3,750 for married persons filing separately). A copy of the Federal income tax return should be attached to the taxpayer's part-year return, or, if no Federal income tax return was filed, a statement to the effect that income for the entire year was \$7,500 (\$3,750) or less.

Nonresidents

Nonresidents who receive any amount of income from New Jersey sources during the year must file a New Jersey nonresident income tax return. No tax is due if a nonresident's income from all sources (both inside and outside New Jersey) for the *entire year* was \$7,500 or less (\$3,750 for married persons filing separately).

Exemption from Withholding

As a result of the change in the minimum income requirement, some employees may no longer be subject to New Jersey income tax withholding. The Division of Taxation has created the Employee's Withholding Exemption Form (Form NJ-W4-E) for use by employees who claim they are exempt from withholding because they expect their income for the year to be less than the minimum amount. See the attached Notice to Employers on Form NJ-W4-E for more information.

Employers must furnish Form NJ-W4-E to their employees, but employees are not required to complete it. Employers may not withhold tax from the wages of an employee who has given them a completed Form NJ-W4-E certifying that he or she meets the minimum income conditions for the current year. If an employee does not complete Form NJ-W4-E, the employer uses the information on the employee's Federal W-4 or NJ-W4 Form for New Jersey withholding purposes.

CAUTION: Employees who complete Form NJ-W4-E indicating that they are exempt from New Jersey withholding may owe New Jersey income tax when they file a return at the end of the year if their income for the year exceeds \$7,500 (\$3,750 for married persons filing separately). An underpayment penalty may be imposed if the amount of tax due exceeds \$100.

For more information, contact the Division's Tax Hotline at 609-588-2200 or write to the Division of Taxation, Taxpayer Services Branch, Office of Communication, CN 281, Trenton, NJ 08646-0281. Many commonly used State tax forms are now available by fax through the Division's NJ TaxFax service. Call NJ TaxFax from your fax machine's phone at 609-588-4500 to obtain the form you need or a list of available forms.